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SIPDIS

STATE FOR NEA/ARP (HARRIS)  
DEPT PASS USTR FOR JASON BUNTIN

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TAGS: [ETRD](#) [ECIN](#) [PREL](#) [GCC](#) [SA](#) [AS](#) [NZ](#) [JA](#)  
SUBJECT: GCC TRADE NEGOTIATIONS DOWN UNDER: STICKING POINTS  
AND FRUSTRATION WITH THE GCC

Classified By: DCM David Rundell reasons 1.4 (b) and (d).

SUMMARY  
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11. (C) At a diplomatic roundtable on free trade agreement (FTA) negotiations with the Gulf Cooperation Council (GCC), the Australian and New Zealand DCMs expressed fatigue and frustration with their respective experiences. The New Zealand DCM said his government is prepared to pull out after the next round if the two sides cannot make significant progress. Both said their governments are frustrated with the GCC as a negotiating partner, and both agreed the GCC consultations between negotiating sessions has proved to be a major barrier to progress. End summary.

STICKING POINTS AND FRUSTRATION WITH THE GCC  
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12. (C) According to Australian DCM Roy Clogstoun, his country's trade agreement negotiations with the GCC are hung up on the issue of the GCC's current five percent tariff on automobile imports (which Australia would like to eliminate) and unresolved issues with the services and investment sections of the agreement. While the current tariff is relatively low, Australians fear another country (i.e. Japan) could gain an advantage by negotiating a lower tariff subsequently. New Zealand's negotiations are stuck on the issue of dairy products, though New Zealand DCM Peter Noble also noted the services and investment portions of their agreement were sub-optimal (Note: Reportedly, dairy and sheep products account for 80 percent of New Zealand's exports to the GCC.). He described the dispute mechanism and arbitration sections of the agreement as "acceptable," but he said his country was preparing to abandon the process after the next round in October if negotiators did not make substantial progress towards reaching an agreement by then.

13. (C) Both DCMs expressed frustration with the GCC, going so far as to question the GCC's motivation for negotiating the agreements. Noble implied the Saudis may be using the negotiations as a training exercise for future agreements with larger trading partners, noting the Chinese had openly done so with his country in bilateral trade negotiations. Both emphasized repeatedly that the GCC's lack of interim consultations between member states seriously hampered progress that otherwise might be easy to achieve. "They don't talk to each other between rounds of meetings," one said, "they just return to their capitals until the next round." The two DCMs asserted that Saudi Arabia controls the GCC in negotiations and has used smaller GCC members as pawns in the process -- convincing other individual members to pretend to be the lone holdout opposing a proposal, when in fact all six member governments actually were in opposition. Our contacts have said the members tend to act in concert to distract attention from controversial issues like the human

rights records of individual GCC countries.

¶4. (C) Japanese DCM Fumio Iwai told Econoff in a separate meeting that the GCC postponed the July round of its free trade negotiations with Japan. "We are in the same boat as the Australians," he said, in that the sticking point in their negotiations is the five percent auto tariff. Iwai said the Saudis had the strongest opposition to lowering the tariff, and he noted that the issue had been raised at the highest bilateral levels.

COMMENT

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¶5. (C) Given GCC officials previously have told us they also are in FTA negotiations with China, Japan, and Turkey, it seems likely the New Zealand DCM's fears that the GCC is using its separate negotiations with Australia and New Zealand as a training round may be well-founded.

Nevertheless, that does not mean the GCC wants them to fail. The failure of EU - GCC negotiations in late 2008 demonstrated an inflexibility which also seems underway here.

One bright spot: both DCMs noted the successful conclusion of U.S. FTAs with Bahrain and Oman had positively influenced the negotiating atmosphere.

ERDMAN